

# Economic Commentary



## Market Commentary for April 2009

### Recession Receding?

April brought further signs that we may be amidst the bottom of the worst economic downturn since the Great Depression. While there is not a lot of good news, there are some signs that things are stabilizing and some economists believe the United States may be poised for a rebound toward the end of 2009 or early 2010. As a result, the Dow Jones Industrial Average climbed 7.4 percent in April and the S&P 500 shot up 9.4 percent in the same period. The Dow finished the month well into the 8000s and is up nearly 30 percent since its 12 year low in early March.

Even so, there was a fair share of bad news. United States Gross Domestic Product (GDP) plummeted well beyond estimates in the first quarter of 2009. Analysts predicted a drop of approximately 5.0 percent, but the official advance estimate shows that GDP actually fell 6.1 percent. Since GDP shrank 6.3 percent in the fourth quarter of 2008, the first quarter figure makes for the largest two quarter decline in real GDP since 1958. It is expected that the economy will continue to contract in the second and third quarters but at a much slower pace. It is then expected to grow again near the end of this year, as Federal Reserve Chairman Ben Bernanke believes, or at the beginning of 2010.

The Bureau of Labor Statistics announced that the unemployment rate for April climbed to 8.9 percent from 8.5 percent in March. This is the highest unemployment rate in the United States since the early 1980s. Still, the shedding of jobs was milder than in recent months. Roughly 539,000 jobs were lost in April compared to the nearly 700,000 (revised) lost in March. Unemployment will continue to rise in the coming months, but at a slower pace.

Although the jobs figures are not pleasant, the consumer appears to be hopeful about the future. The Conference Board's index of consumer confidence jumped more than 12 points to 39.2 from March's 26.9. The surprising improvement was due primarily to the expectations component of the index which measures consumer attitudes about the future. This indicates that the index could be volatile in the coming months if realities do not meet expectations. Likewise, the University of Michigan Consumer Sentiment Survey increased 7.8 points in April to 65.1. This jump was also led by the expectations part of the survey. Possible reasons behind heightened expectations range from hope regarding the federal government's economic stimulus package to the recent uptick in the stock

market. Personal income fell 0.3 percent in March while the savings rate rose to 4.2 percent in the same month, demonstrating that although consumers may be optimistic about the future, they are nervous about the present. The core consumer price index (CPI) increased 0.2 percent in March. This means that inflation remains at bay.

Businesses are still struggling. Retail sales fell a rather sharp 11 percent in March, after posting gains for two consecutive months. The decline was broad based and led by a 5.9 percent drop for electronics and appliance retailers. Factory orders fell 0.9 percent in March, while durable goods dropped by 0.8 percent. Both of these declines follow increases in February. However, the Institute for Supply Management's (ISM) manufacturing index, which measures the overall health of U.S. manufacturing, increased by nearly 4 points in April to 40.1 from 36.3 in March. This figure indicates that manufacturing is still deep in recessionary territory, but the incremental increases in the index since December suggest that a bottom is forming and the sector may be poised for recovery.

The housing picture is much less bleak than it has been for the past year. Existing home sales fell by 3.0 percent in March, which follows February's nearly 5.0 percent increase. However, home sales have been ranging between 4.5 million and 4.7 million units at an annualized pace for the past six months, indicating that the housing market is settling down. New home sales fell 0.6 percent month-over-month in March. This too follows an increase in February, but March's marginal decline, posted after a month of growth and coupled with a steady drop in inventories, suggests that the free fall in new home sales may be over.

The Federal Open Market Committee met in late April and announced it would keep the fed funds target rate between zero and 0.25 percent. The statement released was slightly more optimistic than those in the recent past. It read, in part, "Although the economic outlook has improved modestly since the March meeting, partly reflecting some easing of financial market conditions, economic activity is likely to remain weak for a time. Nonetheless, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability." The statement also noted that inflation "will remain subdued."

### Sector Review

**U.S. Treasuries:** Signs of stabilization in the economy helped investors cycle more money into risk assets and reduce their holdings of Treasuries. This helped reverse the positive returns from March as yields returned to levels last seen in February. The Federal Reserve reiterated its stance on interest rates and also gave some additional timing guidance with regard to its Treasury and Agency purchase program. The 10-year note yield increased to a 3.12 percent yield from a 2.66 percent yield over the prior month. The two-year note yield edged upwards to a 0.90 percent yield from a 0.80 percent yield while the three-month bill saw yields decrease from a 0.20 percent to a 0.13 percent. (Rates and prices maintain an inverse relationship. Prices decrease as yields increase).

**Commercial Paper:** Commercial paper (CP) and certificates of deposit (CDs) began to realize some improved pricing as investors believed that the London Interbank Offered Rate (LIBOR) may continue to decline upon the slow stabilization in funding markets. This may also have been due in part to investors and banks reducing purchases of treasury bills and agency paper as their yields continued to decrease. One-month, top-tier, higher quality asset-backed commercial paper (ABCP) names trade between 0.30 percent and 1.00

percent and three-month paper traded between 0.40 percent and 1.50 percent.

**U.S. Government Agencies:** Agency securities remained fairly well-bid as expectations around more difficult standards facing money funds continues to steer investors to the higher liquidity offered by agency securities. Improved economic news also helped lend some stability to this sector. Agency yields at month-end on three-month paper yielded near 0.12 percent, six-month paper yielded 0.30 percent and 12-month paper yielded 0.55 percent.

**Strategy:** The Federal Reserve maintained its Federal Funds target range between 0.00 and 0.25 percent. While there are some subtle signs of reduced pressure on the economy, slow growth remains evident in the remaining quarters of 2009 (if any positive growth is achieved per estimates of certain Wall Street economists). In this uniquely challenging environment we continue our focus on being highly defensive by attempting to maintain ample cash while trying to be very selective in identifying approved issuers and implementing trade opportunities to add yield that is available in the longer part of the money market curve.

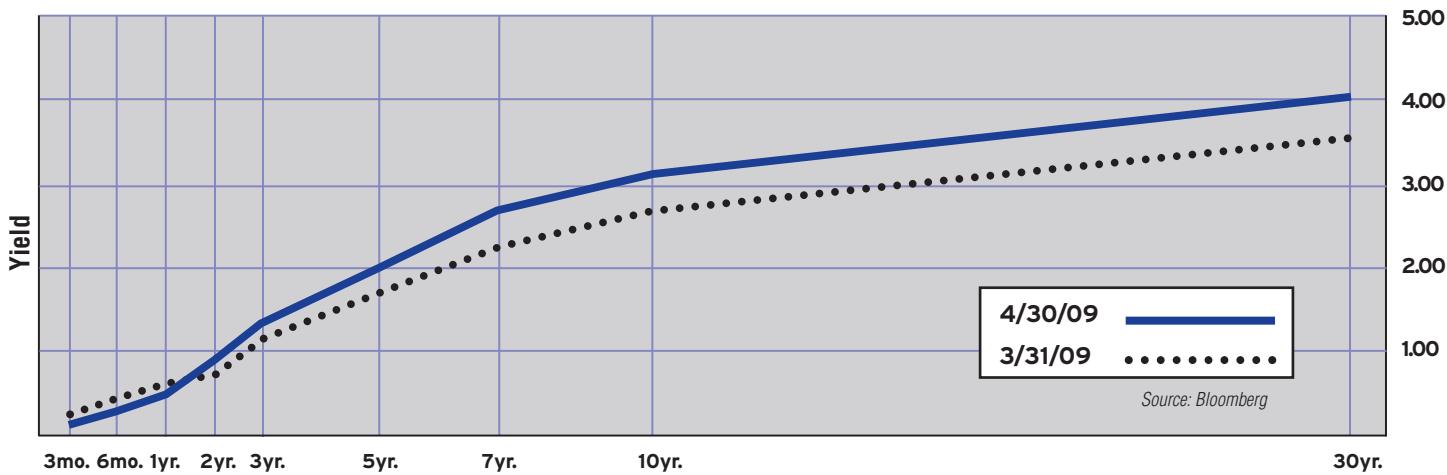


## Market Summary for April 2009

### Monthly Market Summary - Week-ending Rates and Yields

	04/03	04/10	04/17	04/24	2nd QTR AVG	1st QTR AVG
<b>Overnight Rates</b>						
Effective Fed Funds	0.13	0.15	0.13	0.16	0.14	0.18
Repurchase Agreements	0.10	0.10	0.10	0.05	0.09	0.16
<b>Discount Rates</b>						
1 Month Treasury Bill	0.16	0.13	0.05	0.06	0.10	0.10
1 Month Agency Disc.	0.15	0.15	0.09	0.08	0.12	0.17
1 Month Com'l Paper	0.27	0.24	0.29	0.24	0.26	0.36
3 Month Treasury Bill	0.20	0.18	0.13	0.11	0.16	0.18
3 Month Agency Disc.	0.24	0.25	0.19	0.17	0.21	0.30
3 Month Com'l Paper	0.65	0.62	0.55	0.56	0.60	0.71
6 Month Treasury Bill	0.36	0.34	0.30	0.26	0.32	0.33
6 Month Agency Disc.	0.39	0.40	0.35	0.33	0.37	0.47
6 Month Com'l Paper	0.86	0.87	0.72	0.72	0.79	1.04
<b>Yields</b>						
1 Year Treasury	0.60	0.60	0.57	0.50	0.57	0.56
1 Year Agency	0.97	0.92	0.88	0.91	0.92	0.76
2 Year Treasury	0.95	0.95	0.97	0.96	0.96	0.90
2 Year Agency	1.58	1.52	1.44	1.41	1.49	1.60
5 Year Treasury	1.85	1.89	1.90	1.94	1.89	1.77
5 Year Agency	2.67	2.59	2.59	2.58	2.61	2.65

### Historical Yield Curve



### Key Economic Indicators

	For the Period	Date of Release	Expected	Actual	Prior
Unemployment Rate	April	05/08	8.9%	8.9%	8.5%
Consumer Price Index	March	04/15	-0.1%	-0.4%	0.2%
- Less Food and Energy	March	04/15	1.7%	1.8%	1.8%
Consumer Conf. (CB)	April	04/28	29.7	39.2	26.0
FOMC Rate Decision		04/29	0%-0.25%	0%-0.25%	0%-0.25%
Gross Domestic Product	1QA	04/29	-4.7%	-6.1%	-6.3%

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